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SUBJECT: PROMINENT FORECLOSURES MAY SIGNAL FUTURE PROBLEMS

¶1. SUMMARY: The impending bank foreclosures on two prominent Addis Ababa commercial buildings may be an early sign of trouble in Ethiopia's booming construction and building business. The Governor of the National Bank of Ethiopia (NBE - Ethiopia's Central Bank) recently denied that there is a construction bubble, however the sustainability of the rapid growth in commercial construction is questionable. Additionally, these foreclosures mark an aggressive turn in portfolio management for two of Ethiopia's largest banks.  
END SUMMARY

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A TALE OF TWO BUILDINGS  
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¶2. Dembel City Center - The twelve story Dembel City Center is perhaps the most visible building in Addis Ababa. Situated on Bole Road, the main shopping street of the capital, it houses 114 shops and offices as well as several banks. Dembel was completed in 2001 and is regarded as the most upscale shopping center in the country. The government-owned Development Bank of Ethiopia (DBE) on November 12 informed the building's developer Yemiru Nega that it plans to repossess Dembel in order to recover 221.4 million birr (approximately 24 million USD) in outstanding loans. While Yemiru has been in a debt-recovery scheme for the past six months to clear 25.3 million birr (nearly 3 million USD) in arrears, bank officials stated in media reports that he has ceased to make payments and foreclosure is necessary. (NOTE: Sources indicate that Yemiru is the uncle of Minister of Trade and Industry Girma Birru. END NOTE.)

¶3. Mina Building - The Mina building was completed in 1999 and houses the Japan International Cooperation Agency and other tenants. The government-owned Commercial Bank of Ethiopia announced that it plans to auction the building in an attempt to recover over 115 million birr (about 12.75 million USD) in loans made to the building's owner Tis Abay PLC. The building was used for collateral for loans for other business activities of Tis Abay. These businesses suffered significant losses while Tis Abay's owners were jailed for five years on corruption charges. While the owners were acquitted of all charges, Tis Abay has been unable to recover from the losses incurred.

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OVERHEATED COMMERCIAL CONSTRUCTION?  
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¶4. A tour around Addis Ababa and other cities in Ethiopia reveals a huge number of buildings under construction, at least partially fueled by sustained negative real interest rates in Ethiopia in recent years. Many of these are planned as multi-use buildings similar to Dembel and Mina, with a combination of shops on the first few floors and office space above. In visits to offices in several of Addis Ababa's newer complexes, EconOff has observed extremely low occupancy rates. For example, on a visit to a contact in the Friendship City Center, another upscale mixed-use building on Bole

Road, there were no other offices occupied on the contact's floor.

15. Despite rising costs of building materials and overall inflation, construction continues seemingly unabated, with developers of new buildings counting on rent revenues to pay for their costly buildings. . In a meeting with the NBE Governor in early November, Ambassador queried Governor Tekle Wolde Atenafu on the soundness of the construction sector. The Governor shared that he was not concerned about the sector because only about 5% of total outstanding loans in the Ethiopian banking system are for construction, while the bulk of loans are for working capital and term loans for trade and industry.

COMMENT

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16. While Ethiopia's largely government-owned banks have suffered from a high rate of non-performing loans resulting in a credit crunch for borrowers, the moves by two large, state-owned banks to foreclose on prominent buildings is a new and aggressive tactic. While it may simply be a case of better portfolio management and an end to favorable treatment of high-profile enterprises, the foreclosures may also signal an additional need for bank liquidity and a downturn in the commercial real estate sector. Post will continue to monitor this growing, but potentially volatile, component of Ethiopia's economy. END COMMENT

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